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LC/NA/ROB
THE IMPACT OF TRANSNATIONAL CORPORATIONS
ON THE BALANCE OF PAYMENTS OF EGYPT

A TECHNICAL PAPER

by

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A study on the impact of transnational corporations
on the balance of payments of Egypt

Introduction

1. There is no standard method of measuring the impact of transnational corporations on the balance of payments of different countries, since the impact differs accordingly to the economic system, investment and exchange policies and the degree of economic liberalization or controls, not to mention the problem of the availability of statistical data. A practical approach is to design a general framework within which a comparative study may be conducted, with the most relevant factors analysed and measured whenever possible, and with due regard to the special circumstances and economic policy of each country. Comparing results reached at by studies on countries at the same level of development and with similar economic systems and policies may serve as a very useful guide for future economic policy, as regards the role which may be played by transnational corporations and their impact on the balance of payments.
2. While this general framework may include both macro and the micro analyses, as well as both the direct and the indirect effects of transnationals any study should be strictly confined to the impact of transnationals on the balance of payments. It is also to be noted that the strict isolation of one form of impact from other aspects and related factors may not only be impossible but also unadvisable. Moreover a prerequisite of such a study in a certain country, is that transnational corporations are allowed to operate in the country and a required minimum of years have passed so that a trend may be established as regards their impact on the balance of payments.
3. It is further suggested that not only the impact of transnational corporations on the balance of payments of a certain country should be studied but also the impact of the balance of payments on the operations of the transnational corporations. Since the balance of payments is also a part of a larger system of social accounts recording the economic activity of an economy and its various sectors, so the study should include certain aspects of the economy which are reflected in and affected by the balance of payments. The most important of these aspects, especially in developing countries, are "the absorptive capacity", the "credit worthiness", the "investment climate", the "exchange policy" and the degree of liberalization in the economy.
4. "The absorptive capacity" of a country is measured by its ability to use capital productive which also depends on the "availability of existing and potential investment opportunities. Other indicators of the absorptive capacity are (a) the mobilization of additional internal resources as indicated by a higher marginal rate of saving than the average rate of saving, (b) basic facilities in the economic and social infrastructure, and (c) application of modern technology adapted to the conditions and resources of the host country.
5. The credit worthiness of a country relates to its ability to service its past debts and to contract new ones without undue difficulties. Governments, lending institutions and foreign investors are mainly guided by this deficit in

a country's balance of payments may seriously handicap its efforts to mobilize foreign resources and to fill its foreign exchange gap. Unless prompt action is taken, it may be very difficult for the country to regain its credit worthiness.

6. An appreciable degree of liberalization in the economic system is required for the mobilization of foreign resources through the market mechanism and for the smooth inflow of foreign capital. Liberalization is not necessarily synonymous with private enterprise. A country may follow a policy of liberalization with State-owned and mixed enterprises accounting for an important part of its economic activity. Such a policy is characterized rather by freer access to domestic and foreign markets, less administrative interference with the mobility of factors of production and with the functioning of markets and the application of a body of incentives rather than controls.

7. The impact of transnational corporations on the balance of payments of Egypt, as a case study, may be of particular interest, since its Government has reversed its policy of controls, the dominance of public enterprise, reliance on foreign loans rather than foreign investment, and cumbersome government regulations in the fields of industry, trade and other sectors of the economy, opting instead for a new policy of an "open door" economy and liberalization. The general methodology outlined above is followed in this study, and the relevant available data is given. Mainly from the Egyptian Investment Authority, IMF and the Central Bank of Egypt.

From mid-1950s and the mid-1970s

8. The Egyptian economy during this period was characterized by the extensive economic role assumed by the Government. The public sector comprised about 90 per cent of total monetized investment. Annual investment programmes were the main planning instrument. The public sector owned most of modern industry, all banks, insurance companies and financial companies, a large proportion of construction firms, transport and the wholesale trade. While land reform put the old expropriated land in private ownership, new reclaimed land was owned by the State. The Government had considerable influence in agriculture not only through its traditional responsibilities with the water-supply system, but also through the co-operative system and the control it exercised in selling inputs and buying major crops. An important feature of the economic system was an extensive system of price and cost controls. In spite of the fact that the private sector assumed a wider role in the economic activity in the late 1960s and despite some measures taken in the early 1970s to encourage foreign investment (tax exemptions and repatriation of profit) the investment climate in the country could hardly encourage sizable amounts of foreign investment and inflow of capital. Besides cumbersome exchange control regulations, the absence of a market mechanism in the major part of the economy and the dominance of public enterprise, the country had been at war or was preparing for it. So it had to shoulder the burden not only of the transitional periods of development but also the dislocations of war and defence. With the exception of petroleum and drugs and pharmaceuticals

where the public enterprise was in partnership with foreign companies, transnational corporations were reluctant to invest in Egypt.

9. A major change in policy was the promulgation of Law No. 43 in 1974 concerning "The investment of Arab and foreign funds and the free zones" which was amended by Law No. 32 of 1977 which further fortified incentives and gave assurances to foreign investors. The latter was issued to remove certain ambiguities in Law No. 43 of 1974 and to fill certain gaps which undermined, in certain areas of application, the purpose for which the Law was originally promulgated. An administrative body governing the Law was formed, "The General Authority for Arab and Foreign Investment and the Free Zones," under the chairmanship of the Minister of Economic Affairs.

10. The main features of the Law are the following:

(a) Fields of investment

- (i) Investment is approved for the main purpose of realizing economic and social objectives within the framework of Egypt's general policy and national plan provided that such investment is made in projects requiring international expertise in the spheres of modern development or in projects in need of foreign capital.
- (ii) Main fields of investment are: industrialization, mining, energy, tourism, transport, housing and urban development, construction, contracting activities, technical consultancy activities, investment and merchant banks, investment companies which aim at utilizing funds in the fields enumerated by the Law, and reinsurance companies.
- (iii) Special priority is reserved for projects designed to generate exports and reduce the need to import basic commodities as well as for projects which require advanced technology or which make use of patents and trademarks of worldwide reputation.
- (iv) Licences in the free zones may be granted for
 - manufacturing, assembling, processing and other operations which need the advantage of a free zone to benefit from the country's geographical position;
 - storing of transit goods, as well as sorting, mixing and repacking which adapt goods warehoused in the free zones to the requirements of the market.

(b) Incentives and guarantees

Important incentives and guarantees are given to projects established under the provisions of the Law, the most important of which are the following:

- (i) Projects may not be nationalized or confiscated. The assets of such projects cannot be seized, blocked or sequestered except by legal procedures.

(ii) Investment disputes in respect of the implementation of the Law are to be settled in a manner to be agreed upon with the investor, or within the framework of the agreements in force between Egypt and the investor's home country, or according to the Convention for the Settlement of Investment Disputes to which Egypt has adhered.

(iii) Companies enjoying the provisions of the Law are deemed to belong to the private sector of the economy irrespective of the legal nature of the indigenous capital participating therein. Legislation, regulations and statutes applicable to the public sector of the economy and its employees do not apply to these companies.

(iv) Projects are exempt from the tax, commercial and industrial profits. Profits distributed are exempt from tax on revenues from moveable capital, from commercial and industrial profits and from the general tax on income relative to the tax proportion of such profits. Such exemptions are enjoyed for a period of five years and they apply, for the same period, to the proceeds of the profits which are reinvested within the enterprise. This period may be extended to eight years if required by considerations of public interest in view of the nature of the project, its geographical location, its importance to economic development, the volume of its capital and the extent to which it participates in exploiting natural resources or increasing exports.

11. Similarly, for projects of reconstruction, the establishment of new cities and land reclamation enjoy exemptions for ten years which may be extended to 15.

12. These incentives and guarantees stipulated by the Law, as well as the wide coverage of projects and sectors have created a favourable investment climate in the country. The Government has taken other steps to improve this climate especially as regards its credit worthiness and its absorptive capacity.

13. As a result of a variety of factors, chief among them being the higher prices of inputs, the unfavourable terms of trade, the dislocation of the 1973 war and its aftermath, the non-availability of long- and medium-term credit and resort to costly short-term banking facilities to finance important imports in the early 1970s the country accumulated a sizable external civilian debt, the persistence of which would have undermined the credit worthiness of the country in the international money and capital markets. As a matter of fact the servicing of external debt had been a recurrent problem in the management of Egypt's balance of payments.

14. To rectify this situation, in the last few years, the Government has followed, the policy of a more balanced maturity structure and debt control aimed at preventing the recurrence of servicing problems. A marked improvement in the reduced use of short-term correspondent bank credit facilities. A central authority for recording, analysing and controlling external debt was also established in the Central Bank.

15. Another important factor which has contributed to the credit worthiness of the country has been the availability and continuity of external resources and aid. The main sources have been the Arab countries (which terminated, however, their loans and aid since the Peace Agreement), the United States, international organizations and the "Consultative Group of the Western Countries". The exchange system reform, characterized mainly by the virtual unification of the exchange rate and introducing a great degree of liberalization in the exchange control system, has also been a major step in improving credit worthiness of the country.

16. With respect to absorptive capacity of Egypt the most important favourable factors are the popular endorsement of an ambitious strategy for economic development with greater reliance on the market mechanism and private initiative; the existence of fairly large domestic market; the numerous incentives and guarantees stipulated by the new Investment Law; the availability of educated skilled and adaptable manpower as well as experienced business, academic and trained entrepreneurs who understand and welcome new technology; and the existence of a level of economic development and industrial structure which allows the absorption of sizable, diversified investment at a reasonable and competitive cost. Beside the studies currently conducted by the Investment Authority as regards investment opportunities, which are made available to interested prospective investors, there is a large number of business consultants and study groups engaged mainly in conducting feasibility and pre-investment studies.

17. These basic policy changes have already started a process of structural change in the economy. The external sector, as reflected by the balance of payments, has greatly improved, owing mainly to important items in both the current and the capital accounts. A major factor in improving the capital account has been the great increase in private investment flows, as a result of the "open door policy" in the framework of which the transnational corporations have been willing to participate in the investment process with their capital and/or technology. This factor, together with some direct action and agreements by the Government has also strengthened important items in the current account, chief among them being petroleum, the Suez Canal, tourism and the remittances of Egyptians working abroad. Table 1 shows the development of the balance of payments during the years 1975 to 1978. (Some figures for 1979 were estimated and are provisional.

18. As shown on table 1, since 1975 there has been a marked improvement in Egypt's balance-of-payments position. The current deficit declined from a peak of \$2.4 billion in 1975 to \$1.4 billion in 1978. Including the non-monetary capital account the deficit fell from \$2.3 billion to \$454 million. The provisional figures for 1979 show that a slightly higher deficit on the current account will be more than offset by the improvement in the capital account. The above-mentioned basic changes in the structure of the balance of payments are expected to continue as a trend with the main factors of improvement in both the current and the capital accounts.

Table 1. Summary balance of payments of Egypt
(1975 - 1978)
(in thousands of United States dollars)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
A. Trade balance	<u>-2,831.9</u>	<u>-2,777.6</u>	<u>-2,723.0</u>	<u>-3,692.5</u>
Exports (f.o.b.)	1,566.0	1,609.3	1,992.6	1,983.6
Imports (c.i.f.)	-4,397.9	-4,386.9	-4,715.6	-5,676.1
B. Services (net)	<u>356.6</u>	<u>1,180.4</u>	<u>1,463.4</u>	<u>2,218.8</u>
Receipts	1,079.7	1,976.5	2,551.8	3,445.7
Payments	- 723.2	- 796.1	-1,088.4	-1,226.9
C. Trade & service (A + B)	<u>-2,475.4</u>	<u>-1,597.2</u>	<u>-1,259.6</u>	<u>-1,473.7</u>
D. Private unrequested transfers	90.2	87.1	50.6	51.4
E. Current balance (C + D)	<u>-2,385.2</u>	<u>-1,510.1</u>	<u>-1,199.0</u>	<u>-1,422.3</u>
F. Non-monetary capital (net)	<u>81.3</u>	<u>429.6</u>	<u>433.4</u>	<u>994.9</u>
G. Errors & omissions	<u>24.5</u>	<u>13.5</u>	<u>27.3</u>	<u>25.6</u>
H. Balance requiring financing (E + F + G)	<u>-2,328.4</u>	<u>-1,067.0</u>	<u>- 737.8</u>	<u>- 454.8</u>

Source: Central Bank of Egypt and IMF.

The impact of the new investment policy

19. Table 2 shows approved inland, public and private free zones as at 31 December 1979, table 3, projects in actual production and table 4, projects under implementation. For each type of projects, the participation of local and foreign capital is shown, as well as the projected total investment (capital + loans),

20. The most important results as shown in these tables are the following:

(a) Inland projects

21. The total number of approved projects is significant (766 projects) and it covers a very wide range of economic sectors and types of projects. The number of projects in production and under implementation is equally significant, accounting for 27 per cent and 38.4 per cent respectively; taken together they represent 65 per cent of the total as shown on table 5.

Table 2. Approved inland, public and private free zones projects
as at 31 December 1979

(Value in thousands of Egyptian pounds)

		<u>Capital</u>					
		<u>Number</u>			<u>Total</u>	<u>Investment</u>	
A.	<u>Inland projects</u>		<u>Local</u>	<u>Foreign</u>	<u>Total</u>		
	1. Investment companies	37	199 129	255 947	455 076	501 046	
	2. Banks & banking institutions	43	72 465	120 835	193 300	193 300	
	3. Tourism	96	195 962	209 325	405 283	716 979	
	4. Housing projects	43	59 131	100 762	159 893	234 559	
	5. Transport	12	3 086	29 615	32 701	78 347	
	6. Health	17	16 987	21 435	38 422	51 275	
	7. Agriculture	38	59 379	56 860	116 239	275 684	
	8. Contracting	72	21 948	38 399	60 347	105 419	
	9. Consultancy	20	2 849	4 596	7 445	8 600	
	10. Services	22	24 871	131 031	155 902	199 743	
	11. Textiles	38	66 530	55 645	122 175	652 400	
	12. Food and Beverages	53	33 063	34 157	67 220	172 509	
	13. Chemicals	91	76 521	93 953	170 474	282 809	
	14. Wood products	12	3 610	12 242	15 912	26 046	
	15. Engineering	42	43 148	62 953	106 101	280 690	
	16. Building materials	37	70 749	39 510	110 257	292 473	
	17. Metallurgy	25	13 346	20 448	33 794	46 062	
	18. Pharmaceuticals	9	3 831	6 062	9 893	16 731	
	19. Mining and Petroleum	9	3 026	14 176	17 202	34 658	
Total		766	969 691	1 307 960	2 277 651	4 183 910	
B.	<u>Public free zones</u>	Total	249	5 875	185 003	190 873	317 431
C.	<u>Private free zones</u>	Total	64	4 693	203 321	203 014	1 004 532
GRAND TOTAL		1 079	980 259	1 596 084	2 676 543	5 510 881	

Source: Ministry of Economic Co-operation..

Table 3. Inland, public and private free zones projects in production as at 31 December 1979

(Value in thousands of Egyptian pounds)

			<u>Capital</u>			<u>Total</u>	
		<u>Number</u>					
A.	<u>Inland projects</u>		<u>Local</u>	<u>Foreign</u>	<u>Total</u>	<u>Investment</u>	
1.	Investment companies	36	130 919	126 753	257 682	267 352	
2.	Banks & banking institutions	31	31 510	73 690	105 200	105 200	
3.	Tourism	21	11 939	20 080	32 019	62 030	
4.	Housing	3	132	385	573	658	
5.	Transport	4	1 803	18 762	20 565	32 065	
6.	Health	1	200	35	235	390	
7.	Agriculture	10	28 959	22 182	51 141	119 154	
8.	Contracting	26	6 883	10 576	17 459	33 060	
9.	Consultancy	11	1 153	1 737	2 945	3 100	
10.	Services	10	1 259	2 961	4 220	5 307	
11.	Textiles	20	1 839	11 260	13 099	15 342	
12.	Food and Beverages	14	10 107	9 039	19 146	40 113	
13.	Chemicals	41	10 577	21 938	32 515	36 921	
14.	Wood products	4	404	737	1 141	1 263	
15.	Engineering	17	7 031	10 269	17 300	25 048	
16.	Building materials	9	2 498	5 761	8 259	9 702	
17.	Metallurgy	15	9 112	13 110	22 222	29 031	
18.	Pharmaceuticals	2	72	1 826	1 898	2 235	
19.	Mining and petroleum	5	2 366	4 450	6 834	45 204	
Total		180	258 824	355 629	614 453	804 225	
B.	<u>Public free zones</u>	Total	137	3 437	91 662	95 099	135 377
C.	<u>Private free zones</u>	Total	30	2 821	95 789	90 609	111 407
GRAND TOTAL		455	265 082	543 079	318 161	1 101 009	

Source: Ministry of Economic Co-operation.

Table 4. Inland, public and private free zones projects under implementation as at 31 December 1979

(Value in thousands of Egyptian pounds)

		<u>Capital</u>			<u>Total</u>	
<u>A. Inland projects</u>	<u>Number</u>	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	<u>Investment</u>	
1. Investment companies	23	32 738	50 556	83 294	89 594	
2. Bank and banking institutions	8	30 140	24 860	55 000	55 000	
3. Tourism	55	62 898	153 245	216 143	398 713	
4. Housing	31	56 355	30 906	137 261	196 325	
5. Transport	4	1 061	9 025	10 085	42 215	
6. Health	12	14 522	20 457	34 979	60 609	
7. Agriculture	17	19 560	25 969	45 629	87 996	
8. Contracting	15	3 567	7 849	11 416	24 277	
9. Consultancy	3	225	225	450	450	
10. Services	5	515	3 237	3 852	10 041	
11. Textiles	12	60 427	40 625	101 052	615 164	
12. Food and beverages	18	8 416	10 741	19 157	61 879	
13. Chemicals	23	6 814	28 933	35 747	65 567	
14. Wood products	6	2 796	5 265	8 061	13 973	
15. Engineering	10	6 014	11 373	17 387	59 895	
16. Building materials	17	56 906	20 744	77 650	226 267	
17. Metallurgy	9	3 984	7 338	11 322	15 596	
18. Pharmaceuticals	4	1 810	2 215	4 025	6 334	
19. Mining and petroleum	3	600	958	1 618	1 954	
Total		273	369 608	504 520	874 128	2 032 349
<u>B. Public free zones</u>	Total	45	1 793	36 693	38 486	61 256
<u>C. Private free zones</u>	Total	11	720	11 208	11 928	626 253
GRAND TOTAL		329	372 121	552 421	924 542	2 720 358

Source: Ministry of Economic Co-operation.

Table 5. Status of inland projects as at 31 December 1979

Stage of execution	Number		Capital	
	Number	Percentage	Millions of Egyptian pounds	Percentage
In production	280	35.6	614.5	27
In implementation	373	35.6	374.1	38.4
Recently approved	213	27.3	709.1	34.5
Total	756	100	2 277.7	100

Source: Investment Authority.

22. Table 6 shows both Egyptian and foreign participation as at 31 December 1979. The former represents 53 per cent, some of it however in foreign exchange. The latter represents 42 per cent of the total capital.

Table 6. Participation of local and foreign capital in approved inland projects (as at 31 December 1979)

<u>Country</u>	<u>Participation</u> (in millions of Egyptian pounds)	<u>Percentage</u>
Egypt	1 316 177	53
Arab countries	356 402	15
United States	157 381	7
EEC countries	153 974	7
Other foreign countries	233 717	12
Total	2 277 651	100

Source: Investment Authority.

(b) Total projects (inland + free public and free private zones)

23. Table 7 shows the total contribution of both local and foreign capital to all projects approved by the Investment Authority and their stages of execution (as at 31 December 1979).

Table 7.

<u>Types of project</u>	<u>Local capital</u>	<u>Foreign capital</u>	<u>Total</u>
In production	265 082	543 079	808 161
In implementation	372 121	552 421	924 542
Recently approved	343 056	600 784	943 840
Total	980 259	1 696 284	2 676 453

Source: Investment Authority.

24. A high percentage of the foreign capital component derives from important transnational corporations, especially in the fields of banking, petroleum, engineering, pharmaceuticals, contracting, housing, construction, tourism and engineering. The rest is contributed by less important corporations or by private foreign firms, sometimes with Egyptian partners.

25. Tables 2 to 7 show that the open-door policy has already resulted in an appreciable increase in the inflow of foreign capital, and this is well reflected in the non-monetary capital account.

Table 3. Development of direct investment in the capital account of the balance of payments, 1975-1979

<u>Year</u>	<u>(millions of Egyptian pounds)</u>	
1975	5.5	
1976	42.7	
1977	75.1	
1978	220.9	
1979 (Estimate)	650.--	(first half of the year 330.1)

Source: Central Bank of Egypt, IMF, Investment Authority.

26. As shown from Table 3, direct investment has shown a rising trend - from ~~E~~ 5.5 million in 1975 to an estimated ~~E~~ 650 million in 1979. This corresponds with the figures given in tables 6 and 7 for the foreign capital component in projects in production and under implementation, allowing, however, for time lags. This growing trend is impressive, if account is taken of the fact that only a few years have passed since the implementation of the "open door policy" and that both the authorized capital and the planned total investment have to be spread over a number years depending upon the nature of the project. With further approvals and implementation, this element may contribute greatly to improving the balance of payments by increasing the inflow of foreign private capital.

27. Table 9 shows the increasing importance of direct investment in the capital account. It has increased from 9.7 per cent of this account in 1975 to 14.3 per cent in 1976, 23.3 per cent in 1977, 31.3 per cent in 1978 and 41.0 per cent in the first half of 1979. This has been accompanied by less reliance on other items of the non-monetary capital account, especially long-term loans.

Table 9. Balance of payments of Egypt: Non-monetary capital account, 1975 - 1979
(in millions of United States dollars)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979 Jan-June</u>
Long-term loans	-72.3	368.8	557.8	779.9	505.8
Supplier credit	82.3	37.1	-135.9	-10.4	27.0
Direct investment	7.9	61.6	103.0	315.6	400.0
Other	63.4	-57.2	101.5	-90.2	-32.1
Total	81.3	420.6	433.4	994.9	899.7
Percentage of direct investment to total	9.7	14.3	23.3	31.3	41.0

36. Until the mid-1970s, most of the international-class hotels were owned by the Government through the "Egyptian General Organization of Tourism and Hotels". Many of these hotels were operated under long-term management contracts with foreign hotel management companies Hilton, Sheraton, Meridien, and Inter-continental. Although there is usually a strong case for bringing in foreign management which has management expertise and market facilities yet it has been argued that these companies normally require investors to build hotels to deluxe standards while there is a much wider market potential for medium-class hotels. Another consideration is that these companies get about 25 per cent of the gross operating profits of hotels without contributing to their capital. It is further argued that while some foreign experts may always be hired, yet the chance should be given to Egyptians who have gained great experience in managing and operating hotels, instead of their working abroad or in foreign-managed hotels in Egypt with higher pay.

37. Such considerations are taken into account by the Investment Authority when it considers tourism projects submitted for approval. As shown on table 12 high priority is given to tourism, with the typical pattern of "joint venture", and important international corporations showing a growing interest in the Egyptian tourism industry. Table 12 shows the tourism projects established according to the Investment Law.

Table 12. The position of tourism projects as at 31 December 1979
(in thousands Egyptian pounds)

Number	Stage of execution	Local capital component	Foreign capital component	Total component	Total investment
21	In production	11 939	20 080	32 019	52 030
55	Under implementation	52 918	153 245	215 143	390 713
20	Recently approved	121 125	35 001	157 126	256 226
96	Total	195 962	209 326	405 288	716 969

Source: Investment Authority, Ministry of Finance

38. The rising trend of foreign exchange proceeds from tourism and their contribution to the balance of payments is expected to be strengthened in the future, with more approved projects being implemented and with the great development of the tourism potential of Sinai for which a plan has already been prepared.

39. Table 13 shows the tourism proceeds in the balance of payments since the mid-1970.

Table 13. Balance of payments - Current a/c tourism 1975 - 1979

Year	Millions of Egyptian pounds
1975	232.2
1976	324.7
1977	509.7
1978	491.0
1979 (Estimate)	530.0

Source: Central Bank of Egypt, IMF Ministry of Tourism

40. The over-all contribution of canal dues, workers remittances and tourism to the current account of the balance of payments is shown in table 14. This contribution has increased from 27 per cent of the services receipts in the current account in 1975 to 77 per cent in 1976, to 80 per cent in 1977, 90 per cent in 1978 and 94 per cent as estimated in 1979.

Table 14. Balance of payments of Egypt (1975 - 1979)
(in millions of Egyptian pounds)

Current account services (receipts)

	1975	1976	1977	1978	1979 (Estimated)
A. Total receipts	755.8	1 333.5	1 786.2	2 412.0	2 750.0
of which:					
B. Canal dues	59.4	217.7	299.5	359.6	600.0
C. Workers' remittances	256.2	528.4	627.6	1 332.9	1 500.0
D. Tourism	232.2	324.7	509.7	491.0	530.0
E. (A + C + D)	547.2	1 070.3	1 436.8	2 183.5	2 630.0
Percentage share of E in A	72	77	80	90	94

Source: Central Bank of Egypt, IMF.

Petroleum

41. The planning and development of the petroleum sector has been successful and has proceeded effectively despite changes in the political setting and in the orientation of the surrounding economic system. This has been done in partnership with experienced Western international oil companies which maintained a continuous and fruitful relation with the domestic petroleum sector. Because of the capital and technological intensity of the sector, it has been possible to develop the sector with a relatively small number of technically competent nationals and foreigners unencumbered by the Government bureaucracy.

The Anglo Egyptian Oilfields Company, mainly owned by Shell with a minority holding by the Egyptian Government, was about the only company operating in Egypt until 1956. Discoveries in the Western desert and the Gulf of Suez led to production rates that started at slightly more than half a million tons per year before World War II and increased to about 2.25 million tons in 1952.

42. In the 1960 the Government intensified the search for oil by signing exploration and development agreements with several oil companies. The loss of the Sinai fields during the 1967-1975 occupation was counterbalanced by the development of the large El-Morgen field and by new discoveries in the Gulf as well as in the Western desert. Natural gas has also been discovered in the desert and near Alexandria.

43. Exploration activities were further intensified after the establishment of the Ministry of Petroleum in 1973. While it safeguards the interests of the country as regards exploration, production, conservation and the follow-up of the "petroleum plan", it administers the sector in a business-like manner.

44. Some 55 agreements have already been concluded. They are of the production sharing type, and involve a commitment of \$1.1 billion expenditure on exploration and development over a very wide area of Egypt, with signature bonuses totalling about \$111 million.

45. Generally, foreign signatory is made responsible for all prospecting and, once oil is found, a part of production is earmarked for cost recovery. Usually the company commits itself to a minimum level of expenditure over a certain period which averages between seven and 12 years. If a commercial discovery is made, production is undertaken jointly with the Government; and expenditure on exploration, development and operations is recovered from the proceeds at a rate of between 20 and 40 per cent of oil production or actual costs. If actual expenditure exceeds this limit, the balance is transferred to subsequent periods. If it falls short, the remainder is either shared between the Government and the foreign partner or fully paid to the Government. This portion is known as "cost oil"; the remaining "profit oil" is shared between the Government and the Company on an agreed basis usually from 75 to 85 per cent for the Government.

46. Attention has also been recently directed towards natural gas production in the Nile delta and in the western desert. About 80 per cent associated gas in the Gulf of Suez is currently flared off, but a pipeline network is to be built up to bring this gas to industrial zones around Suez and to Cairo.

47. The petroleum sector's importance to the Egyptian economy has increased considerably in recent years. Its share in GDP rose from 3 per cent in 1975 to 8 per cent in 1978 and to 14 per cent in 1979. Exports of crude oil and petroleum products account now for more than half of Egypt's total exports receipts as shown in table 15.

Table 15. Exports of crude oil and petroleum products (1975 - 1979)
(In millions of Egyptian pounds)

Year	Total exports	Exports
		Oil & petroleum products
1975	1 096.2	123.6
1976	1 156.5	252.2
1977	1 394.6	284.3
1978	1 338.5	372.0
1979 (Estimates)	1 500.0	850.0

Source: Ministry of Petroleum.

- The country is a net exporter of both crude oil and refined petroleum products. Profits transfers to the Treasury, as well as direct and indirect taxes on petroleum products contributed about 20 per cent of total central Government revenues. Import substitution is an important aspect of the sector. In spite of the growing consumption of oil and its products, including lately butane gas, imports have not increased much as shown in table 16.

Table 16. Domestic consumption of crude oil and petroleum products (1975 - 1979)
(In thousands of metric tons)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u> (nine months)
Total domestic consumption	7 382	8 091	8 871	9 629	7 924
Production	8 614	9 950	10 530	11 362	8 990
Imports	470	344	299	508	403
Less exports	1 702	2 203	1 958	2 343	1 469

Source: Egyptian General Petroleum Corporation.

48. It is clear from this table that, while the volume of imports have remained almost static at between 300 and 500 thousand tons, the growing consumption demand has been met, inspite of the upward trend in exports. It is planned that to meet the increase in demand for certain products and butane gas, the production and storage of these products will be enhanced. The foreign exchange earnings of the sector would be much too high if account were taken of the difference between the internationally quoted prices of some locally consumed products and the actual prices charged by the Government to the consumer according to the system of supporting prices of some necessities to keep the cost of living low. For butane gas, super and ordinary petrol, kerosene, benzol and mazout, local rates for Egyptian consumers is only a small fraction of world prices, as shown in the following table.

Table 17. Petroleum products

	(Egyptian pounds)	
	World price (on 15 November 1979)	Local rates for Egyptian consumers
Butane gas (cylinder)	3 950	0 550
Petrol, Super (litre)	0 207	0 110
Petrol, Ordinary (litre)	0 200	0 090
Kerosene (litre)	0 223	0 025
Benzol (litre)	0 225	0 025
Mazout (ton)	105 000	7 500

Source: Egyptian General Petroleum Corporation and Ministry of Petroleum.

49. The over-all balance of payments of the petroleum sector is shown in table 18.

Table 18. Petroleum sector - Balance of payments (Crude & products)
(1975 - 1979)

(In thousands of Egyptian pounds)

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u> (Estimate)
<u>Balance of payments</u>	<u>-7 484</u>	<u>137 371</u>	<u>227 435</u>	<u>325 125</u>	<u>700 000</u>
Export proceeds	123 587	252 204	284 280	371 959	350 000
Payments	131 071	114 333	55 345	55 834	70 000

Sources: Egyptian General Petroleum Corporation, Central Bank, IMF and Ministry of Petroleum.

50. The great increase in foreign exchange earnings was due not only to a larger export volume but also to a more favourable balance between exports of crude and refined products, according to the policy of the Government.

Conclusion

51. The above analysis shows that, since the open-door policy, transnational corporations have had both the opportunity and the incentive to start or to increase investments in Egypt. Their impact on the balance of payments was particularly felt in the areas of direct foreign investment; worker's remittances, Suez Canal dues, tourism and the petroleum sector. The balance of payments has started to improve mainly owing to these elements, and there is enough reason to believe that it will continue in the future.



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THE IMPACT OF TRANSNATIONAL BANKS ON THE
BALANCE OF PAYMENTS OF THE SUDAN*

A TECHNICAL PAPER

by

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* ECA Consultant. The views expressed herein are those of the author and do not necessarily represent the views of this organization.

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1. COUNTRY VARIABLES

(a) Area

The Sudan, with an area of 967,500 square miles - approximately 2.56 million square kilometers - is the largest country in the African continent, comprising varying climatic and vegetation zones ranging from barren desert to dense equatorial forests.

(b) Population

The population of the Sudan is small relative to the considerable size of the country. It is estimated to be 13 million and is increasing at the rate of 2.5 percent per annum. However, this is not to say that the Sudan is without population problems. Rather, this situation presents a different range of problems in relation to population distribution, housing and the provision of other services, taking into account the constraints imposed by transport bottlenecks.

(c) Gross domestic product and per capita income

Table 1 gives figures for the GDP at market prices by type of economic activity. Actual GDP data are available up to fiscal year 1974/75. Figures for the years 1975/76, 1976/77 and 1977/78 are estimates based on the compound rate of growth for each sector.^{1/}

Table 1. GDP at market price by economic activity for the period 1973/74-1977/78
(in L\$ millions)

Economic Activity	1973/74	1974/75	1975/76	1976/77	1977/78
Agriculture	515.4	585.3	688.4	763.3	871.7
Commerce, finance and services	411.5	518.5	591.1	673.9	768.2
Manufacturing and mining	111.3	142.9	152.2	184.1	209.0
Transport and communications	74.0	39.4	98.1	107.5	118.0
Construction and public works	51.0	55.0	75.6	90.3	106.5
Electricity and water	18.6	20.9	21.7	22.5	23.5
Total all sectors	1,193.5	1,422.0	1,638.1	1,841.6	2,096.9
Customs	52.5	63.0	100.2	113.0	127.5
GDP at market price	1,246.2	1,485.0	1,738.3	1,954.6	2,224.4

Source:- Bank of Sudan, Annual Report 1978.

^{1/} Bank of Sudan, Annual Report 1973.

The percentage contributions of the various sectors to GDP were as follows (for 1977/78);

Agriculture	39.2
Commerce, finance and services	34.5
Manufacturing and mining	9.4
Transport and communications	5.3
Construction and public works	4.2
Electricity and water	1.0
Customs	5.7

The rate of increase of GDP for the period under consideration, i.e., 1974/75 - 1977/78, averaged 15.6 per cent.

Per capita income in real terms has at best risen slightly, taking into consideration the continued pressure on prices together with the high rate of population growth of 2.5 per cent.

2. PRODUCTION

(a) Agriculture

The Sudan has a large agricultural potential. Most areas enjoy easy access to plentiful water supplies from both rivers and rainfall. Arable land is estimated to be 200 million acres, only 10 per cent of which is currently utilized. The country also has 60 million acres of pasture land sparsely utilized by traditional herdsmen. Agriculture is the source of virtually all exports, provides the bulk of inputs to the industrial sector, and employs two-thirds of the labour force.

Historically, the Government has taken - and still takes - the major share in development projects. The most important of these projects in agriculture is the Gezira scheme, which alone comprises two million acres. Mention should also be made in this respect of the Rahad scheme with an area of 150,000 acres. In the rain-irrigated areas, cultivation is carried on mainly by traditional methods, although substantial mechanization and modernization has taken place.

The main agricultural crop is cotton, which is also the country's main cash crop and foreign exchange earner.

Also important as foreign exchange earners are oil seeds, i.e., groundnuts and sesame. The Sudan is also a major world producer of gum arabic and the volume of Sudanese exports affects world market prices.^{2/}

Livestock breeding is an important activity in the Sudan, mostly carried on by traditional herdsmen.

^{2/} The Sudan Oil Seeds Corporation, in which the Government of the Sudan holds a major share, has a monopoly of the export of oilseeds. Similarly, the Gum Arabic Corporation has a monopoly of the export of that commodity, and the Cotton Public Corporation is the sole marketing agent for cotton.

Table 2 gives the area and output for the five years ending 1978/79

Table 2. Area and output of main crops for the period 1974/75-1978/79^{a/}

Crop	1974/75		1975/76		1976/77		1977/78		1978/79	
	area	output	area	output	area	output	area	output	area	output
Cotton ^{b/}	1,228	4,534	988	2,276	1,030	3,268	139	3,901	NA	NA
Gum Arabic	-	52,600	-	43,300	-	26,185	-	39,345	NA	NA
Groundnuts	1,717	875	2,066	931	1,894	740	2,629	1,021	2,300	811
Sesame	2,199	282	2,291	238	2,288	253	2,349	245	2,057	220
Wheat	598	245	714	264	639	294	592	317	317	266
Dura	5,854	1,744	6,179	2,026	6,287	1,800	6,662	2,017	7,202	2,408
Dukhn	2,646	444	2,512	403	2,773	473	2,948	488	3,158	557

Notwithstanding the serious efforts that have been made to develop and modernize agriculture in the Sudan, certain handicaps and difficulties are still encountered, namely:

- (i) Social and technical difficulties,
- (ii) The existing irrigation system will require considerable expenditure and there are bound to be technical problems in increasing its capacity (irrigation, canals, dams and other facilities),
- (iii) The severe limitation of the carrying capacity of the transport system still remains the most formidable single bottleneck, in spite of obvious improvements.

(b) Industry production

The industrial sector in the Sudan is relatively small and is concerned mainly with processing primary products. Import substitution industries are also significant, notably sugar and textiles. Thus industrialization is limited in scope and confined to agro-industries. The Government also holds the largest stake in this sector (sugar,

^{a/} Areas are given in thousands of feddans for all crops.

^{b/} Cotton output is given for both long staple and American type in thousands of kentars.

Source: Bank of Sudan, Annual Reports.

textiles, etc.). The Government, moreover, provides virtually all the infrastructure available in the field of transport and communications, irrigation facilities and ports, all of which are run by the respective Government departments.

Table 3 shows industrial production for the years 1974/75-1977/78.

Table 3. Industrial production for the period 1973/75-1977/78

Commodity	Unit	1973/74	1974/75	1975/76	1976/77	1977/78
Cement	Thousand tons	209.1	217.7	157.7	178.3	132.1
Flour	Thousand tons	190.1	220.9	237.3	266.8	275.0
Sugar	Thousand tons	120.5	128.7	113.9	138.7	138.2
Soap, toilet	Thousand tons	2.9	2.6	3.0	2.6	2.6
Soap, normal	Thousand tons	29.7	34.6	40.1	48.1	46.1
Wine	Thousand litres	4 307.7	4 592.9	4 607.1	4 078.3	3 858.4
Beer	Thousand litres	8 579.4	9 634.3	9 579.1	8 788.4	8 223.7
Cigarettes	Thousand kilograms	567.9	514.3	894.9	728.1	819.5
Matches	Billion units	6.5	5.3	6.2	7.4	6.5
Shoes	Million pairs	12.1	13.3	14.4	12.4	13.6

Source: Bank of Sudan, Annual Report 1978.

3. PUBLIC FINANCE

As mentioned above, the Government takes the major share in development as well as providing virtually all infrastructure and services. It is therefore also the biggest single spender. Figures for Government revenues and expenditures for the fiscal years 1973/74 to 1977/78, as well as the overall position of the public sector for those years, are given in table 4.

Table 4. Government revenues and expenditures for fiscal years 1973/74-1977/78^{a/}
(LSD millions)

Item	1973/74	1974/75	1975/76	1976/77	1977/78
A. Central Government revenue	209.5	287.0	322.0	388.4	451.6
Direct taxation	23.6	33.0	34.4	41.0	47.7
Indirect taxation	119.2	183.5	211.2	237.8	250.0
Other	66.7	71.3	86.4	108.4	143.9
B. Central Government expenditure	-189.6	-264.0	-303.2	-351.2	-409.8
Economic services	23.4	28.4	34.9	40.3	30.2
Social services	15.8	18.7	23.9	25.5	54.6
Loan repayments	19.0	27.6	37.5	56.7	30.4
Defence and security	41.2	41.9	45.5	63.1	75.5
Local government	37.9	48.1	59.8	75.5	85.4
Other	51.3	99.3	101.6	89.2	123.7
Current deficit or surplus	+19.9	+23.8	+28.8	+37.2	+41.8
C. Development expenditure	-41.8	-102.4	-113.1	-216.4	-186.8
Agriculture sector	13.0	21.4	31.5	63.1	43.2
Industrial sector	12.7	36.0	35.7	58.1	39.0
Transport and communications	7.2	23.2	27.9	48.1	55.0
Services sector	7.9	19.3	9.7	21.9	15.1
Other	1.0	2.5	8.5	25.2	32.3
D. Public sector position with the banking system	-19.2	-43.9	-12.3	- 3.0	- 4.0
E. Other public sector operations surplus (+) or (deficit) (-)	-31.1	-40.1	-33.7	12.7	26.9
Public sector overall position	-72.2	-162.5	-130.3	-169.5	-129.9
F. Financing of deficits	72.2	162.5	130.3	169.5	120.9
External loans	24.4	103.6	22.5	9.9	4.4
Bank financing (net)	41.9	59.0	107.8	159.6	116.5
Sales of Government securities to private sector	5.9	-	-	-	-

a/ The fiscal year in the Sudan runs from 1 July to 30 June.

Central Government revenue increased at an average rate of 21.5 per cent over the period under consideration, while central Government and development expenditure increased at an average rate of 28.3 per cent. The percentage increase in Government

expenditure on development by sectors was as follows:^{3/}

Agricultural sector	45.1
Industrial sector	53
Transport and communications sector	-
Services sector	47.3
Others	153.6

The fiscal performance of the central Government since 1974/75 has been characterized by large deficits. Moreover, while the deficit has widened, foreign financing has declined sharply from over 53.7 per cent of the total deficit for the whole public sector in 1974/75 to less than 4 per cent in 1977/78. Dependence on bank financing has thus increased.

The revenue structure has not changed much in recent years.^{4/} Taxes on imports are by far the main source of revenue and amount to almost 50 per cent of the total tax revenue. Other important domestic taxes are excise duties (14 per cent) and a tax on sugar monopoly profits (7 per cent). Taxes on income and profits account for less than 15 per cent of tax revenue.

MONEY AND CREDIT

The banking system in the Sudan comprises the central bank (Bank of Sudan), ten Commercial Banks, four specialized banks, two savings institutions and two representative offices. Five of the commercial banks are state-owned; they were formerly privately owned but were nationalized in 1970 (El Nilein Bank, Sudan Commercial Bank, Unity Bank, Khartoum Bank and People's Cooperative Bank). Two banks are privately owned and are incorporated in the Sudan with some foreign participation (Faisal's Islamic Bank (Sudan) and Sudanese Development Bank). There are three branches of transnational banks, namely Abu Dhabi National Bank, Citibank and Bank for Credit and Commerce. In addition, there are the two savings institutions (Sudanese Savings Bank and the Post office Savings Bank), and the two representative offices (Chase Manhattan Bank and Arab African Bank). The four specialized banks are Agricultural Bank, Industrial Bank, Estate Bank and the newly established Cooperative Bank.

^{3/} It should, however, be noted that the reference here is to the average increase over the 5-year period. If figures for individual years are considered, however, agricultural development expenditure for 1977/78 shows a sharp decline (31 per cent) from that of the previous year.

For industrial development expenditure the rate of increase given is also an average rate; it should be noted that, following a very large increase of 133 per cent in 1974/75, there was a sharp drop of 32.9 per cent in 1977/78 from the level of 1976/77.

Transport and communications development expenditure showed a steady rise throughout the period and the rate given is again an average increase over the five years.

^{4/} Some modifications were made to the tax system during 1979. A 5 per cent ad valorem tax, called the defence tax, was imposed on most imports in May 1979. Revenue from this tax is estimated at LSd 20 million. In September 1979 both the 5 per cent surcharge and the 5 per cent development tax on imports was abolished. Also abolished were the 25 per cent exchange tax on payments and 25 per cent subsidy on receipts.

(a) Deposits

Table 5 gives figures for deposits held by the main depositors by type of account.

Total holdings of the main depositors, as shown in Table 5, increased on average by 32.5 per cent over the years under consideration. Private sector current accounts increased by an average of 31.7 per cent and deposit and saving accounts by an average of 31.6 per cent. In spite of this and because of the deficits in Government budgets and reliance on the banking system, it can be stated that the savings performance of the whole economy was weak.

The increase in private sector deposit accounts may be attributable mainly to the expansion of banking services and consequent development of banking habits (see Annex I). On the other hand, the increase in private sector demand deposits was the result of two main factors: (1) the sharp rise in commercial bank short-term credits to the private sector, and (2) the increase in deposits by SNWA.^{2/}

(b) Advances

The Government borrows mainly from the Bank of Sudan under Section 57 of the Bank of Sudan Act 1959. This provides that the bank of Sudan may give temporary advances to the Government at such rate or rates of interest as the Bank may determine, provided that the total outstanding at any time shall not exceed 10 per cent of the estimated current budget of the Government for the fiscal year in which such advances are granted. Provided further that all such advances shall be repaid at the latest within six months following the end of the fiscal year in which such advances were granted.^{5/}

In addition, the Government may borrow from the Bank of Sudan on a long-term basis to finance production schemes or schemes that have a direct bearing on production.^{7/}

Borrowing by the Government from the banking system has been substantial and has been used to finance the budgetary deficits mentioned above. However, during the fiscal year 1977/78 the Government adopted policies of fiscal restraint in an attempt to reduce the size of the deficit financed by the banking system. These policies resulted in some improvement in the performance of the public sector.

Public sector entities and corporations borrow from the Bank of Sudan under Section 57(A) of the Bank of Sudan Act 1959. The entities and corporations

- ^{5/} Sudanese Nationals Working Abroad.
- ^{6/} Bank of Sudan Act 1959, Section 57.1(a).
- ^{7/} Bank of Sudan Act 1959, Section 57.1(b).

borrowing under section 57(A) include **SCPC**, Sudan Railways, Sugar and Distilling Corporation, Sudan Airways, ARC, Mechanized Farming Corporation, Sudan Gezira Board, Food Industries Corporation, etc.

Movements of advances by commercial banks to the private sector are shown in Table 6.

Table 6. Advances by commercial banks to private borrowers for the period
31 December 1974-31 December 1978. (LSD '000)

	<u>Exports</u>		Imports and retail trade	Industrial enter- prises	Other Business enter- prises	Others	Medium and Long- term Loans	Total Advanc- es
	Cotton	Others						
31.12.1974	3 668	57 307	10 691	39 992	15 555	6 530	11 372	123 215
31.12.1975	4 375	63 333	14 603	59 456	21 063	12 029	11 212	185 071
31.12.1976	4 844	77 071	15 849	74 028	24 259	13 978	18 365	228 394
31.12.1977	8 850	76 013	22 976	75 136	27 408	12 783	41 421	264 587
31.12.1978	7 391	85 189	39 193	106 979	28 613	23 246	52 117	343 228

Source: Bank of Sudan, Annual Reports.

The average increase in the advances by commercial banks to the private sector for the period under consideration was 29.8 per cent. Lending by commercial banks is regulated by the Bank of Sudan and a ceiling is set for each bank as well as an overall ceiling for the whole economy. The Bank of Sudan can influence not only the total volume of credit but also the direction of credit.

(c) Money supply and price indices

Credit to public enterprises and to a lesser extent credit to the private sector are the main determinants of the money supply.

Currency in circulation has increased progressively over the last five years. Demand deposits have also increased substantially due to the increase in bank advances, as mentioned above. The third component of the money supply, i.e., quasi-money, has also shown a continued increase. A summary of the movements in the money supply is given in Table 7.

Table 7. Money supply for the period 31.12.1974-31.12.1978
(in LSd million)

Money supply	31.12.1974	31.12.1975	31.12.1976	31.12.1977	31.12.1978
Currency	118.75	128.52	152.81	199.03	279.06
Private demand deposits	100.98	123.06	153.35	224.74	291.54
Quasi-money	46.85	57.94	73.85	108.09	135.34
	266.58	309.52	380.51	531.86	705.94

Source: Bank of Sudan.

5. BALANCE OF PAYMENTS

A summary of the balance of payments of the Sudan for the period 1974-1978 is given in Table 8.

The balance of payments of the Sudan, as presented in Table 8, shows an average annual deficit of LSd 82.5 million. Imports increased by an average rate of 9.5 % per cent while exports averaged an 13 per cent rate of increase. However, the increase in exports reflects a general increase in the price level and not in production; production of some crops actually declined, as shown in table 8 and export proceeds for 1978 decreased by 6.2 per cent as compared with 1977.

(a) Exports

If interest is the relative share of cotton - which is the main foreign exchange earner - compared to other exports traditionally grouped under "others", It is clear from Table 8 that the relative share of "others" has been increasing continuously over the years and that for 1978 export proceeds from "others" were greater than those from cotton. This trend towards an increasing relative share of non-cotton exports is important as showing the effect of the diversification policy adopted because the risks involved in depending mainly on a single crop are enormous. The market for long-staple cotton is limited and highly specialized, with a small number of suppliers. This renders the supply side highly vulnerable to

8/ This is the average rate of increase; imports, after rising sharply in 1975, dropped by some 15.8 per cent and then picked up continuously thereafter.

Table 8. Summary of balance of payments of the Sudan for the period 1974-1978
(LSD million)

Item	1974	1975	1976	1977	1978
1. Current account					
Exports:	139.0	146.3	209.2	230.3	216.0
Cotton	53.8	63.7	123.9	128.7	88.8
Others	85.2	82.6	85.3	101.6	127.2
Imports:	207.0	284.4	239.4	245.9	279.8
Government Direct purchases	84.4	157.5	120.0	109.0	83.4
Others	122.5	126.9	119.4	136.9	196.4
Trade balance	- 68.0	-138.1	- 30.2	- 15.6	- 63.8
Services	- 35.0	- 28.2	- 34.6	- 19.7	20.1
Payments	57.8	62.9	76.6	75.2	92.1
Receipts	22.8	34.7	42.0	55.5	112.2
Deficit (-) or surplus (+) on current account	-103.0	-166.3	- 64.8	- 35.3	- 43.7
2. Capital account	102.1	32.2	25.7	35.7	32.1
(a) Official capital	98.1	33.5	22.6	11.5	7.2
Drawings	123.2	64.3	50.3	33.3	34.1
Repayments	+ 27.2	31.3	28.2	21.8	26.9
(b) Supplier credit (net)	- 1.6	- 2.0	2.2	- 0.2	- 1.7
(c) Compensation	- 8.6	- 2.4	- 1.4	-	- 1.1
(d) Short-term capital movement (net)	+ 1.3	- 0.4	+ 6.7	+ 24.4	27.7
(e) SDC Short-term assets	+ 6.9	+ 3.5	-	-	-
3. Errors and omissions	- 1.7	+ 0.7	+ 0.9	- 0.4	- 0.5
4. Monetary movements	+ 2.5	+133.4	+ 38.2	-	12.1

fluctuations due to factors outside the suppliers control, e.g., crop failures due to natural conditions. On the demand side, long-staple cotton is at the expensive end of the cotton market and, as such, is subject to severe competition from substitutes, e.g., synthetic fibres. In additions, a combination of external and internal factors has affected developments in the exports sector, as follows:

- (i) fluctuations over the past five years in world market prices for the major exported commodities. 2/
- (ii) The severe floods of July 1978.
- (iii) Transport bottlenecks.
- (iv) Difficulties in importing fertilizers, spare parts and machinery due to shortage of foreign exchange.

(b) Imports

Imports, in contrast, amounted to almost 140 per cent of exports over the years, but the most recent preliminary results show some decrease in imports by the Government as the result of a deliberate slow-down in development expenditure. This decrease may be attributable to the foreign exchange shortage but it also seems that the recent emphasis on self-sufficiency in food production has had some effect in this respect.

Petroleum imports have been rising and their relative share of the total import bill has increased as a result of the international rise in prices of petroleum and petroleum products. The breakdown of imports by category shows that the largest proportion is for machinery and equipment. This is to be expected as the Sudan has gone a long way in implementing a six-year plan for economic and social development for the period 1977/78-1982/83. It should, however, be mentioned that not all items classified as machinery and equipment are for development purposes. Nevertheless, if all items in imports that are concerned with production and development are considered together, the above statement is probably correct.^{10/}

(c) Services

Over the years 1974, 1975, 1976 and 1977 net services balances showed substantial deficits as the result of increasing payments on external debt, contractual obligations and development expenditure. The services balance for 1978, however, warrants special consideration as the only instance of a surplus in the services balance for the five years under consideration.

9/ Prices of cotton, for instance, dropped from LSd 137 per bale in 1977 to only LSd 100 per bale in 1978. On the other hand, prices of groundnuts rose sharply from an average of \$US 409 per metric ton in 1967/77 to \$US 541 per metric ton for fair average quality, and from \$US 586 per metric ton in 1976/77 to \$US 817 per metric ton in 1977/78 for hand-picked selected. Sesame prices increased from an average of \$US 557 per metric ton in 1976/77 to \$US 681 per metric ton in 1977/78. (Bank of Sudan, Annual Report 1978, p. 37).

10/ The figures for 1978 are as follows (in LSd '000s); machinery, electrical (4,746) and non-electrical (26,583); machinery, spare parts (50,304); tractors (4,835); textile machinery and parts (14,589); fertilizers (433); and insecticides (9,633), i.e., a total of LSd 120,825,000 for imports for development or 43 per cent of total imports for that year.

The 1978 surplus can be explained, at least in part, by the fact that transfers by Sudanese nationals working abroad rose from LSd million in 1977 to LSd 44.5 million 1978. In addition, IMF transfers of gold profits to the Sudanese Government amounted to LSd 3 million. However, here again it is to be expected that the services balances of a developing country will be in deficit as it has to import technical know-how and expatriate services to use foreign transport facilities and to make interest payments.

(d) Capital account

As can be seen from Table 8, this account showed a net inflow of capital for the five years under consideration of LSd 102.1 million, LSd 32.2 million, LSd 25.7 million, LSd 35.7 million, and LSd 32.1 million, respectively. This variation can be explained by the net drawings on contracted loans and the position of other items, such as suppliers' credit, compensation and changes in the foreign liabilities of the Bank of Sudan and other commercial banks. The average net inflow of capital amounted to LSd 45.6 million over the period considered. Needless to say, this falls short of what is needed in the case of the Sudan.

(e) Exchange and trade system

There have been a number of major changes in the Sudan's exchange system in the past two years. In brief, these changes in chronological order, were as follows:

On 8 June 1978 the official exchange rate was changed from LSd 1 = \$US 2.87156 to LSd 1 = \$US 2.5. On the other hand, the tax/subsidy was increased from 5.18 Sudanese piastres per \$US 1 to 10 Sudanese piastres per \$US 1, so that the effective exchange rate was LSd 1 = \$US 2.0. This effective rate applied to all transactions except sales of cotton, for which the rate continued to be LSd 1 = \$US 2.5 (i.e., exclusive of tax/subsidy). This was changed, however, on 1 July 1979, when the effective rate was applied to sales of cotton. At the same time special incentive rate of LSd 1 = \$US 1.50 was introduced for remittances from non-residents and other sources.

On 16 September 1979 a much simpler exchange-rate system was introduced as part of a general movement towards liberalization of the trade and exchange system. The subsidy/tax system was abolished and an official rate of LSd 1 = \$US 2.0 was established. At the same time the special incentive rate of LSd 1 = \$US 1.50 was abolished and a parallel rate of LSd 1 = \$US 1.25 was established in its place.

Barter trade and nil-value import licensing was terminated as of 16 September 1979. Licences for imports and exports continued to be issued by the Ministry of Cooperation Commerce and Supply and to be validated by the Bank of Sudan for imports through the official market and by commercial banks for imports through the parallel market.

Sudanese nationals as well as non-residents were allowed to open current accounts in foreign currencies with Sudanese banks. Funds in these accounts could be freely used for transfer abroad or sale in the parallel market. As part of the 16 September measures, the exchange control requirement that all persons entering or leaving the Sudan declare all foreign currency in their possession was lifted. All imports were also exempted from both the 5 per cent development tax and the 5 per cent surcharge on imports. In addition, import duties were to be calculated at the official rate of LSh 1 = \$US 2.0.

All bilateral payments agreements with other countries have been terminated, with the exception of that with Egypt which was due to expire on 31 December 1980.

6. TRANSNATIONAL BANKS IN THE SUDAN

(a) Coverage

Transnational banks (corporations) are defined here to include those banks (corporations) whose activities involve more than one nation. This study has therefore been concerned mainly with the possible impact of three banks in the Sudan, namely Abu Dhabi National Bank, Citibank and Bank of Credit and Commerce. However, it should also be mentioned that two other banks in the Sudan have same foreign capital participation, namely, Faisal's Islamic Bank (Sudan) and The Sudanese Investment Bank. The impact of those two banks has also been considered, in spite of the fact that they are Sudanese banks incorporated in the Sudan and would not be considered as transnational banks under the above definition. There are also two representative offices (Chase Manhattan Bank and Arab African Bank). Their effect is negligible, as they import no capital and their foreign exchange expenses in the Sudan are relatively small.

The impact of transnational banks on the Sudan's balance of payments will now be considered in the light of the information presented in the preceding sections.

(b) Sudanese policy towards transnational banks

The balance of payments often acts as an important constraint on growth. Most countries have therefore paid special attention to the effect of transnational banks (corporations) on their balance of payments. As in other countries, a number of factors have a greater effect on the balance of payments of the Sudan than transnational banks (corporations). However, concern about the impact of such banks on Sudan's balance of payments is not unfounded, as will be shown subsequently.

As the preceding analysis of the Sudanese economy has shown, the country has vast resources, both agricultural and otherwise. The main bottleneck is the shortage of the foreign exchange needed in order to import machinery and equipment, as well as technical and managerial services, together with the need to expand the existing infrastructure. The impact that developing and utilizing the Sudan's potential and resources would have on the balance of payments is obvious. Transnational banks (and corporations) have worldwide interests as well as the corresponding financial and managerial resources and market outlets. Developing countries have therefore found it of prime importance that their policies towards such banks be consistent with their overall strategies for economic development. A clear

definition of economic and social objectives greatly helps the host government in formulating and implementing such strategies.^{11/}

It is with this last consideration in mind that the Minister of Finance, Planning and National Economy of the Democratic Republic of the Sudan issued his statement of September 1974 on the Government's policy towards the opening of branches of transnational banks and representative offices thereof. This statement pointed out the potential of the Sudan in agriculture, industry and mining and the Government's determination to utilize that potential; the Government's policy and concessions to foreign investors and investments would therefore be diverted towards that end. The statement went on to say that the Government was of the opinion that ordinary banking services were adequately provided by the existing banks in the Sudan but that there was a need for the services of development banks and of banks specializing in financing foreign trade. The Sudan therefore welcomed banks able to cover such areas and to provide such services.

The statement then listed the main conditions under which branches of foreign banks may be licensed, as follows:

1. The applicant bank is required to strictly adhere to and comply with all laws, circulars and instructions relating to banking business in the Sudan, whether already issued or to be issued in future.
2. The applicant bank is also required to transfer to the Sudan a minimum capital of £3 million within a maximum period of six months from the date of opening of the first branch in the Sudan.
3. The applicant bank is not allowed to open any current, saving or time deposit accounts in local currency except for business enterprises dealing with the bank (primarily exporters and importers) and Sudanese nationals working abroad.
4. Foreign banks should provide medium-and long-term credit for the development of the agricultural and industrial sectors.
5. Any other arrangements can be agreed upon with the Minister of Finance, Planning and National Economy.

The minimum capital requirement was later raised to £10 million, but that figure was negotiable if, in the view of the competent authorities, the applicant satisfied other requirements considered to be of greater importance.

As a further prerequisite, the applicant bank has to prove to the Minister its competence and experience in financing development projects and in providing long- and medium-term credit.

In line with this policy, the three foreign banks already mentioned have been licensed and are already operating in the Sudan.

^{11/} "Strengthening the negotiating capacity of developing countries" (E/C.10/50).

(c) Structure and activities of transnational banks

(i) Bank of Credit and Commerce

Date of establishment

The bank first came to the Sudan in September 1976.

Structure

This bank is a branch of the Holding Company of Bank of Credit and Commerce International (Luxemburg) SA. The Khartoum and Port Sudan Branches constitute the Sudan operations and are linked to the African Regional Office in Cairo.

Capital

The capital brought to the Sudan is \$US 5 million.

Activities

The main banking activities of the two branches are said to be financing of local commercial activities and import and export transactions.

Intermediation

In response to a question about their role in intermediation of foreign investments and investors the bank replied as follows: "A good number of SNWA accounts are kept in our books fed periodically by good inward transfers. Most of the account holders are very well connected with our branches in the Arab countries. Besides we managed to open accounts in the name of foreign correspondents i.e. money changers - to meet their drawings for SNWA remittances".

(ii) Citibank

Date of establishment

Citibank Khartoum started operations on 3 December 1976.

Structure

Citibank Khartoum is a branch of Citibank New York, which has 30 branches throughout the Middle East and North Africa, and 1,200 offices in a total of 94 countries around the world.

Capital

The capital of Citibank Khartoum is \$US 5 million.

Activities

Citibank Khartoum offers normal banking services including export, import, local currency financing, transfers and local currency deposits.

Facilities provided by Head Office

Citibank Khartoum maintains foreign currency accounts with its head office in New York and with Citibank London for foreign currency clearing purposes.

Intermediation

Citibank has participated in several syndicated loans to the Government of the Sudan and the private sector, e.g., for the financing of the Government's share in the capital of Kenana Sugar Company, the purchase of communications satellites, and of British Leyland Landrovers for the Mechanical Transport Department, Sudan Development Corporation, for Red Sea Spinning (Port Sudan), and for the generators installed at Port Sudan.

Branches

At present there is only one branch in the Sudan—Citibank Khartoum. Another branch at Port Sudan is contemplated.

(iii) Abu Dhabi National Bank

Date of Establishment

The bank commenced business in the Sudan in October 1975.

Structure

The Sudan Regional Office comprises two branches of Abu Dhabi National Bank of the United Arab Emirates — Khartoum branch and Port Sudan branch. Facilities to clients by the Regional Office above a certain limit have to be referred to Head Office for final approval.

Capital

The capital brought to the Sudan was \$US 5 million.

Activities

The bank carried on normal banking activities.

(iv) Faisal's Islamic Bank (Sudan)Date of establishment

The bank was incorporated as a Sudanese Public Company on 18 August 1977 under the Companies Act 1925, with headquarters in Khartoum. The bank was officially opened on 10 May 1978.

Capital

The authorized capital is LSd 10 million, divided as follows: 40% of the shares were allotted to Sudanese nationals, a further 40% to Nationals of Saudi Arabia, and 20% to Muslims from other countries. In other words the foreign capital brought to the Sudan is 60 per cent of the total, i.e., LSd 6.0 million.

Activities

The bank's activities include participation as well as direct investment. For this latter purpose, the bank has established the Islamic Company for Trade and Commerce. In addition, the bank offers all the usual banking services, which can be carried out in such a way that no interest is involved. The basic rule of the bank, in fact, is that interest charges are completely eliminated from all its activities, i.e., no predetermined charge is fixed in advance as a percentage of the amount of money lent or borrowed by the bank.

(v) Sudanese Investment Bank

This is a Sudanese bank incorporated in the Sudan as a public company under the Companies Act 1925. It commenced business on 3 January 1979. Its Board of Directors includes some 19 members representing shareholders and both local and foreign participants. At the present time the Chairman is also the Managing Director, and is assisted by a Deputy General Manager, representing foreign interests in the bank. There is also a Deputy Chairman for foreign affairs who also represents foreign shareholders.

Capital

The authorized capital of the Bank is LSd 7,500,000 and is now fully paid up. It is divided into shares of LSd 150 each. Shares have been allotted as follows:

<u>Sudanese shareholders</u>		<u>Foreign shareholders</u>	
	(per cent)		(per cent)
Publicly held	50	Société Générale (Paris)	20
Bank of Sudan	5	Marinco SA (Luxemburg)	10
Sudan Commercial Bank	5	Alimenta SA (Geneva)	5
Dr. Khalid Farah	5	Total:	35
Total	65		

Foreign participation therefore amounts to LSA 2,625,00.

Activities

The main activities of the Bank are stated to be, in addition to the normal commercial banking activities, to:

- Identify, develop, promote and encourage public and private investments through providing finance or other forms of assistance.
- Assist in the modernization and expansion of existing enterprises.
- Promote the participation of local and foreign capital in such enterprises.
- Co-operate with public and private institutions in broadening the base of security ownership and in the creation of a capital market.
- Participate in financing foreign trade.

7. IMPACT OF TRANSNATIONAL BANKS ON THE BALANCE OF PAYMENTS

The impact of such banks on the balance of payments may be either direct or indirect.

(a) Direct impact

(i) Capital inflow

The direct impact includes the capital brought to the Sudan by these banks. As might have been expected, this has had a positive effect on the balance of payments. However, the total inflow of capital brought into the Sudan in this way is not very great compared to the total capital inflow into the country. Bank of Credit and Commerce, which commenced business in the Sudan in September 1976, brought in a capital of only \$US 5 million. In the same year, i.e., 1976, Abu Dhabi National Bank brought to the Sudan another \$US 5 million as capital. If it is assumed that their capital was all brought into the Sudan during 1976, this should have been registered as a positive inflow of \$US 10 million. Lack of consistent statistics and clear segregation of various transactions do not permit the tracing back of this amount in the balance of payments for that year. Nevertheless, even if it is assumed that this amount was recorded for 1976, it still represents only a fraction of the total capital inflow to the Sudan. Citibank, in turn, brought to the Sudan \$US 5 million by way of capital in 1979. The same comment applies here. As regards capital inflow, therefore, the impact of transnational banks is positive but comparatively small. Moreover, as these banks start remitting profits made over the years this will reverse the initial favourable effect on the balance of payments. Again, however, amounts are expected to be small.

(ii) Facilities from abroad

Another possible direct impact of these banks on the balance of payments is represented by the facilities made available to them by correspondents abroad. The foreign position of the five banks is shown in Table 9.

Table 9. Foreign position as of February 1980
(LSD '000s)

Bank	Assets	Liabilities
Bank for Commerce and Credit	925	173
Abu Dhabi National Bank	5 969	1 940
Citibank	-	-
Faisal's Islamic Bank	9 532	-
Sudanese Investment Bank	4 954	-

Table 9 shows that facilities amounting to LSD 21,380,000 were made available to these banks from their correspondents but that only LSD 2,113,000 has been utilized. The impact of these banks on the balance of payments as of February 1980 would have been greater by more than LSD 19 million if all the facilities had been utilized by the banks.

However, if we consider the total facilities available to all the commercial banks in the Sudan which amount to LSD 117.9 million, this figure of LSD 21,380,000 means that 17.9 per cent of these facilities are in foreign exchange. Here the impact will be positive, provided that these facilities are utilized, and may be expected to increase as these banks, through their head offices, increase the facilities made available to them by foreign correspondents. A relevant consideration here is that these banks, because of the nature of their interests and connexions, might compete more aggressively for a share of the facilities already available to banks in the Sudan. While the possibility cannot be ruled out completely, however, no case of any decrease in facilities for existing Sudanese banks has been reported. There is, in addition, no evidence that any of these banks has been a correspondent of a Sudanese bank, so that no decrease in correspondence facilities for Sudanese banks has so far been reported.

(iii) SNWA accounts

After the exchange and trade measures of 16 September 1979, already described, it was expected that Sudanese nationals working abroad would be encouraged to remit their savings in foreign exchange to the Sudan. Banks were therefore urged to stage a campaign for that purpose and were required to file with the Bank of Sudan weekly

returns of accounts opened with them in foreign currencies whether through the official or the parallel market. Examination of these returns shows that, up to the week of 17 February 1980 Abu Dhabi National Bank had opened SNWA foreign currency accounts equivalent to a total of LSd 2,868,000. Accounts to the value of the equivalent of LSd 7,613,000 were also opened for residents by the bank.^{12/} Bank of Commerce and Credit opened SNWA accounts to the value of LSd 151,300 in foreign exchange, and also opened resident accounts denominated in foreign currencies to the value of LSd 7,146,000. Citibank's SNWA accounts amounted to only LSd 25,000, while its resident accounts were LSd 4,345,000. Thus here the effect on the balance of payments is also positive and relatively substantial.

Account must also be taken, however, of the possibility that Sudanese nationals working abroad might bring their savings to the Sudan in any case, whether these transnational banks existed or not, by direct remittance to the Sudan, especially when it is remembered that there are branches of El Nilein Bank in Abu Dhabi and an office of the same bank at the Sudanese Embassy in Jeddah. The actual impact may therefore be much less than the figures quoted.

(b) Indirect impact

The indirect impact of transnational banks can be much greater than the direct impact. The problem here is that it cannot be quantified. For developing countries in general, owing to the absence of consistent statistics and the diversity of the reporting and recording systems and techniques, quantitative analysis becomes at best cumbersome and in certain instances virtually impossible. Comparability is not possible or easy because of differences in the techniques used in compilation, reporting and coverage. A further serious problem in this respect is the lack of adequate and reliable information. It will be both useful and relevant therefore, to dwell somewhat on the indirect impact of transnational banks on the Sudan's balance of payments. It was for this purpose that an analysis of the Sudanese economy was presented at the beginning of this report. The indirect effects are summarized below.

(i) Financing of international trade and local industries

Exports

Financing of exports has never been a problem as this function has been adequately performed by the existing Sudanese banks. The Bank of Sudan was also available to support the export financing abilities of the commercial banks. This type of financing is attractive for obvious reasons, since it constitutes a type of self-liquidating loan that will at the same time earn foreign exchange for the financing bank. A bank with exporters for clients will therefore be in a better position from a foreign exchange point.^{13/}

^{12/} To absorb foreign exchange in the hands of Sudanese nationals and residents, the measures of 16 September 1979 permitted the opening of accounts denominated in foreign currencies by residents of the Sudanese

^{13/} Proceeds from exports through the parallel market are left in that market and banks can therefore use these proceeds by buying them from their customers at the parallel rate of LSd 1 = \$US1.25; proceeds from exports through the official market, i.e., cotton, gum arabic and oil seeds, which are the main export items of the country, are apportioned at the rate of 25% for the bank and 75% for the Bank of Sudan.

Imports

Financing of imports, on the other hand, may have either an adverse or a favourable impact on the balance of payments. To the extent that imports are financed out of the bank's own resources or facilities, this will help the balance of payments. If, however, the imports are financed from funds already coming into the Sudan, this will adversely affect the balance of payments.

Local industries

Financing of local industries may have favourable effects on the balance of payments by encouraging import substitution industries or expanding the exporting ability of the economy.

Short-term advances by the transnational banks, broken down into exports, imports and local industries, are given in Table 10.

Table 10. Short-term advances for financing exports, imports and local industries as at February 1980 (Lsd '000s)

Bank	Exports	Imports	Local industries	Others ^{a/}	Total short-term
Bank of Commerce and Credit	6,297	8,522	3,059	-	17,878
Abu Dhabi National Bank	1,189	1,791	9,324	993	13,297
Citibank	290	-	-	3,489	3,779
Faisal's Islamic Bank	9,044	6,184	580	2,507	18,315
Sudanese Investment Bank	3,010	3,322	1,943	4,229	12,504

(ii) Long- and medium-term financing

This type of financing is what is really sought as indicated in the statement by the Minister of Finance, Planning and National Economy previously mentioned. Currently, transnational banks in the Sudan have not been as active in this field as they should be. Up to February 1980 only three banks had advanced any long-term credit, namely Bank for Credit and Commerce (LSd187,000), Abu Dhabi National Bank (LSd194,000) and Faisal's Islamic Bank (LSd1903,000).

^{a/} No breakdown is available for the item "Others". If, however, as may be assumed, these represented personal or consumption loans, then the impact on the balance of payments will be adverse as the bulk will go for imports of consumer goods.

(iii) External intermediation for development financing

There is no indication as yet that transnational banks in the Sudan have been active in this field. This is where the services of transnational banks are most needed and where their favourable impact will be strongly felt. Transnational banks (corporations) are seen as vehicles for the inflow both of foreign exchange and of foreign technology and managerial services. This is where they can really help if they choose.

The vast agricultural, industrial and mineral potential of the Sudan as discussed earlier, has been only partially utilized. Shortage of foreign exchange is a real problem but more important may be inadequate technology and managerial services. Transnational banks, with their international connections, human resources and contacts with specialized institutions worldwide, can be of great assistance to developing countries. Assisting in the proper utilization and development of the Sudanese Economy will have a direct positive impact on the balance of payments of the Sudan.

The Sudan therefore needs banks that specialize in agricultural and industrial credit, that will not only provide the foreign component of the financial needs of projects in the Sudan, -important as that may be- but will also assist in importing technology and managerial services. The existing transnational banks in the Sudan do not seem to be undertaking such activities.

8. CONCLUSIONS

The conclusions of this study may be briefly summarized as follows:

(a) Direct impact

Transnational banks have a direct impact on the balance of payments of the Sudan, as follows:

(i) The impact in terms of the capital brought by these banks into the Sudan, which amounted to LSL 16,125,000,^{14/} is positive but not very substantial relative to the total capital inflow. Transfers of profits by these banks will have a negative effect but are expected to be small.

(ii) The impact in terms of the opening of SIFA accounts is positive and can be substantial, but this has to be qualified, as previously discussed.

(iii) The impact in terms of foreign facilities is positive and can be substantial if advantage is taken of the credit-worthiness and connexions of the parent head offices of these banks, provided that all facilities are utilized fully and are newly obtained.

^{14/} Including foreign participation in Faisal's Islamic Bank and the Sudanese Investment Bank.

(b) Indirect impact

The indirect impact although impossible to quantify, would appear to be as follows:

(i) financing of exports: the impact is not expected to be great as this area is already adequately covered by the Sudanese banks. If new exports are financed the effect will be positive.

(ii) financing of imports: to the extent that the transnational banks provide foreign exchange for financing imports from their own resources the impact will be positive. If, however, additional imports are financed, this will exert greater pressure on the balance of payments and will have a negative effect.

(iii) financing of development and of local industries: the impact is expected to be positive as this will result in increased exports and more import substitution industries. Transnational banks have not been sufficiently active in this area.

(c) General conclusions

Experience with transnational banks in the Sudan is limited and it may be too early to pass a final judgement on their impact on the Sudanese balance of payments. The number of these banks is still small and more banks have just been licensed. Approval should be given, however, only to specialized banks with experience that will enable them to assist in the development of the Sudan. This implies not only foreign exchange financing but also drawing on the experience and worldwide interests of their head offices to bring to the Sudan modern technology, entrepreneurship and technical knowhow.

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